

# PERAC AUDIT REPORT

## Hull Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2003 | PERAC 03: 10-045-21



## **TABLE OF CONTENTS**

Letter from the Executive Director .....	1
Explanation of Findings and Recommendations .....	2
Statement Of Ledger Assets And Liabilities .....	5
Statement Of Changes In Fund Balances .....	5
Statement Of Income .....	6
Statement Of Disbursements.....	7
Investment Income.....	8
Statement Of Allocation Of Investments Owned .....	9
Supplementary Investment Regulations .....	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations.....	14
Note 4 - Administration Of The System .....	17
Note 5 - Actuarial Valuation And Assumptions .....	18
Note 6 - Membership Exhibit.....	19

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*  
KENNETH J. DONNELLY | ERIC A. KRISS | JAMES M. MACHADO | DONALD R. MARQUIS | TIMOTHY R. MURPHY

JOSEPH E. CONNARTON, *Executive Director*


January 27, 2005

The Public Employee Retirement Administration Commission has completed an examination of the **Hull** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2003**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## Hull Retirement System

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

1. **Appropriations:** The Board has not received the appropriations due from the Hull Housing Authority for FY 2003 (\$16,577) and FY2004 (\$10,033). These amounts were due on January 1<sup>st</sup> in the middle of each fiscal year. The Board has been communicating with the Hull Housing Authority and has sought assistance from legal counsel in this matter.

**Recommendation:** The Board should continue all efforts to recoup the appropriation payments along with interest for the past due period. This may include litigation if necessary and if so the Board should also seek relief for the cost of litigation.

M.G.L. c. 32, § 22 (7)(c)(iv) states in part:

“If any governmental unit fails to include any amounts so certified in its appropriations for such fiscal year, the assessors or other taxing authorities shall nevertheless include such amounts in the next tax levy. All amounts so certified shall be a legal obligation of any such governmental unit and may be recovered in an action of contract by the retirement board of any such contributory retirement system.”

#### **Board Response:**

The Board has received the total FY2004 appropriation from the Hull Housing Authority. The Board and their legal counsel continue to work with the Hull Housing Authority, and are prepared to pursue all avenues for payment of the FY2003 appropriation.

2. **Retirees:** One member, in accordance with a contract between the member and the Town, received a Sick Leave Buyback. Wherein the member waived the sick leave buyback for an equal amount towards his salary. Also, this member in his final year of employment was paid for eighteen (18) holidays while the two previous years included payment of eleven (11) holidays. These additional payments also affected the amount of educational incentive that was paid, which is calculated as twenty-five (25) percent of the other compensation. While the Town is free to negotiate employment contracts as they see fit, the Retirement Board, when calculating the retirement allowance, high three-year average salary, for said member must only consider in the salary calculation what is defined to be regular compensation under M.G.L. c. 32, § 1 and 840 CMR 15.03.

**Recommendation:** The Board must review all amounts included in the high three-year average salary calculation to ensure that it includes only regular compensation as defined by M.G.L. c. 32, § 1 and 840 CMR 15.03. In this particular case, the Board should review the calculation and adjust the retirement allowance.

## **Hull Retirement System**

### **EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)**

**FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **Board Response:**

The contract between the Town and the specific member was an employment contract that terminated certain benefits, one specifically named being sick leave buy-back, and replace them with compensation as the first step in removing a civil service position covered by the Town's by-laws and creating a professional position. This was not a redefinition of compensation, but an amendment to the ongoing total compensation package for this position. The final three-year average salary was previously reviewed and found to have included two extra pay periods, which included the additional holidays. The three-year average and subsequent retirement allowance were recalculated to include only the appropriate amounts, and all overages have been repaid to the system.

#### **Final determination**

***PERAC audit staff will follow-up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## Hull Retirement System

### STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

<b>FOR THE PERIOD ENDING DECEMBER 31,</b>				
<b>ASSETS</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Cash	\$128,340	\$104,315	(\$43,666)	\$293,027
Short Term Investments	0	0	0	0
Fixed Income Securities	0	0	0	1,327,193
Equities	0	0	381,378	1,176,588
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	3,384,586	2,510,165	3,340,240	1,771,938
Pooled International Equity Funds	312,013	290,877	583,743	395,442
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	2,943,494	2,714,723	2,710,455	1,116,399
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	0	0	0	0
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	147,506	0	0
PRIT Core Fund	7,491,171	5,547,429	5,679,628	6,025,954
Interest Due and Accrued	0	0	0	19,432
Accounts Receivable	26,637	175,641	82,971	924,390
Accounts Payable	(8,323)	(4,337)	(5,362)	(35,861)
<b>TOTAL</b>	<b><u>\$14,277,919</u></b>	<b><u>\$11,486,319</u></b>	<b><u>\$12,729,389</u></b>	<b><u>\$13,014,502</u></b>
<b>FUND BALANCES</b>				
Annuity Savings Fund	\$5,395,255	\$5,078,935	\$4,947,465	\$4,761,545
Annuity Reserve Fund	2,342,323	2,160,714	1,905,014	1,740,684
Military Service Fund	0	0	0	0
Pension Fund	384,875	366,153	425,431	354,474
Expense Fund	0	0	0	0
Pension Reserve Fund	6,155,466	3,880,517	5,451,478	6,157,800
<b>TOTAL</b>	<b><u>\$14,277,919</u></b>	<b><u>\$11,486,319</u></b>	<b><u>\$12,729,389</u></b>	<b><u>\$13,014,502</u></b>

## Hull Retirement System

### STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	<b>Annuity Savings Fund</b>	<b>Annuity Reserve Fund</b>	<b>Military Service Fund</b>	<b>Pension Fund</b>	<b>Expense Fund</b>	<b>Pension Reserve Fund</b>	<b>Total All Funds</b>
<b>Beginning Balance (2000)</b>	\$4,501,165	\$1,662,650	\$0	\$569,117	\$0	\$6,512,631	<b>\$13,245,563</b>
Receipts	596,293	\$49,786	0	1,531,664	202,574	(354,831)	<b>2,025,486</b>
Interfund Transfers	(230,081)	230,081					<b>0</b>
Disbursements	(105,833)	(\$201,834)	<u>0</u>	(1,746,307)	(202,574)	<u>0</u>	<b>(2,256,547)</b>
<b>Ending Balance (2000)</b>	<b>4,761,545</b>	<b>\$1,740,684</b>	<b>0</b>	<b>354,474</b>	<b>0</b>	<b>6,157,800</b>	<b>13,014,502</b>
Receipts	644,094	52,342	0	1,894,492	172,050	(706,322)	<b>2,056,656</b>
Interfund Transfers	(325,930)	325,930					<b>0</b>
Disbursements	(132,244)	(213,941)	<u>0</u>	(1,823,535)	(172,050)	<u>0</u>	<b>(2,341,770)</b>
<b>Ending Balance (2001)</b>	<b>4,947,465</b>	<b>1,905,014</b>	<b>0</b>	<b>425,431</b>	<b>0</b>	<b>5,451,478</b>	<b>12,729,389</b>
Receipts	738,981	62,165	0	1,969,454	172,742	(1,570,961)	<b>1,372,380</b>
Interfund Transfers	(432,206)	432,206					<b>0</b>
Disbursements	(175,304)	(238,672)	<u>0</u>	(2,028,731)	(172,742)	<u>0</u>	<b>(2,615,449)</b>
<b>Ending Balance (2002)</b>	<b>5,078,935</b>	<b>2,160,714</b>	<b>0</b>	<b>366,153</b>	<b>0</b>	<b>3,880,517</b>	<b>11,486,319</b>
Receipts	850,733	63,707	0	2,119,225	137,251	2,277,576	<b>5,448,492</b>
Interfund Transfers	(410,017)	412,644				(2,627)	<b>0</b>
Disbursements	(124,397)	(294,741)	<u>0</u>	(2,100,504)	(137,251)	<u>0</u>	<b>(2,656,892)</b>
<b>Ending Balance (2003)</b>	<b><u>\$5,395,255</u></b>	<b><u>\$2,342,323</u></b>	<b><u>\$0</u></b>	<b><u>\$384,875</u></b>	<b><u>\$0</u></b>	<b><u>\$6,155,466</u></b>	<b><u>\$14,277,919</u></b>

# Hull Retirement System

## STATEMENT OF INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Annuity Savings Fund:</b>				
Members Deductions	\$643,618	\$579,256	\$529,983	\$487,830
Transfers from other Systems	130,049	93,221	26,963	12,265
Member Make Up Payments and Redeposits	28,447	1,909	459	4,258
Investment Income Credited to Member Accounts	<u>48,619</u>	<u>64,595</u>	<u>86,691</u>	<u>91,941</u>
<b>Sub Total</b>	<b><u>850,733</u></b>	<b><u>738,981</u></b>	<b><u>644,094</u></b>	<b><u>596,293</u></b>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited Annuity Reserve Fund	<u>63,707</u>	<u>62,165</u>	<u>52,342</u>	<u>49,786</u>
<b>Pension Fund:</b>				
3 (8) (c) Reimbursements from Other Systems	30,606	30,606	27,183	29,417
Received from Commonwealth for COLA and Survivor Benefits	120,212	156,356	167,543	186,562
Pension Fund Appropriation	<u>1,968,407</u>	<u>1,782,492</u>	<u>1,699,766</u>	<u>1,315,685</u>
<b>Sub Total</b>	<b><u>2,119,225</u></b>	<b><u>1,969,454</u></b>	<b><u>1,894,492</u></b>	<b><u>1,531,664</u></b>
<b>Military Service Fund:</b>				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Sub Total</b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>
<b>Expense Fund:</b>				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>137,251</u>	<u>172,742</u>	<u>172,050</u>	<u>202,574</u>
<b>Sub Total</b>	<b><u>137,251</u></b>	<b><u>172,742</u></b>	<b><u>172,050</u></b>	<b><u>202,574</u></b>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	4,000	9,000	8,000	5,354
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	814	273	893	2,439
Miscellaneous Income	89	-	0	0
Excess Investment Income	<u>2,272,673</u>	<u>(1,580,234)</u>	<u>(715,215)</u>	<u>(362,624)</u>
<b>Sub Total</b>	<b><u>2,277,576</u></b>	<b><u>(1,570,961)</u></b>	<b><u>(706,322)</u></b>	<b><u>(354,831)</u></b>
<b>TOTAL RECEIPTS</b>	<b><u>\$5,448,492</u></b>	<b><u>\$1,372,380</u></b>	<b><u>\$2,056,656</u></b>	<b><u>\$2,025,486</u></b>



# Hull Retirement System

## STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2003	2002	2001	2000
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$33,012	\$65,238	\$31,551	\$38,861
Transfers to other Systems	91,384	110,066	100,693	66,972
<b>Sub Total</b>	<b><u>124,397</u></b>	<b><u>175,304</u></b>	<b><u>132,244</u></b>	<b><u>105,833</u></b>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	252,790	238,672	212,543	198,985
Option B Refunds	41,951	0	1,399	2,849
<b>Sub Total</b>	<b><u>294,741</u></b>	<b><u>238,672</u></b>	<b><u>213,941</u></b>	<b><u>201,834</u></b>
<b>Pension Fund:</b>				
Pensions Paid				
Regular Pension Payments	1,124,887	1,057,531	897,857	828,543
Survivorship Payments	42,806	43,067	46,487	51,814
Ordinary Disability Payments	18,262	28,134	25,045	24,301
Accidental Disability Payments	624,407	596,096	540,369	477,382
Accidental Death Payments	68,461	67,381	74,804	87,147
Section 101 Benefits	6,655	6,681	0	9,563
3 (8) (c) Reimbursements to Other Systems	87,264	89,153	85,509	80,092
State Reimbursable COLA's Paid	127,762	140,689	153,463	187,464
Chapter 389 Beneficiary Increase Paid	0	0	0	0
<b>Sub Total</b>	<b><u>2,100,504</u></b>	<b><u>2,028,731</u></b>	<b><u>1,823,535</u></b>	<b><u>1,746,307</u></b>
<b>Military Service Fund:</b>				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>				
Board Member Stipend	0	0	0	0
Salaries	33,094	41,636	48,642	38,442
Legal Expenses	3,289	9,677	2,449	12,503
Medical Expenses	0	0	48	0
Fiduciary Insurance	0	2,544	0	0
Service Contracts	5,084	0	0	0
Rent Expense	0	0	0	0
Travel Expenses	2,061	3,124	4,000	4,811
Administrative Expenses	26,061	41,211	35,498	52,467
Furniture and Equipment	2,499	12,959	0	0
Management Fees	65,165	60,606	58,321	94,350
Custodial Fees	0	984	23,092	0
Consultant Fees	0	0	0	0
<b>Sub Total</b>	<b><u>137,251</u></b>	<b><u>172,742</u></b>	<b><u>172,050</u></b>	<b><u>202,574</u></b>
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$2,656,892</u></b>	<b><u>\$2,615,449</u></b>	<b><u>\$2,341,770</u></b>	<b><u>\$2,256,547</u></b>

# Hull Retirement System

## INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2000  
AND ENDING DECEMBER 31, 2003**

	<b>FOR THE PERIOD ENDING DECEMBER 31,</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>Investment Income Received From:</b>				
Cash	\$1,235	\$3,639	\$13,830	\$14,816
Short Term Investments	0	0	0	0
Fixed Income	0	0	37,664	217,510
Equities	0	613	6,165	32,509
Pooled or Mutual Funds	318,626	290,254	276,341	40,503
PRIT Fund	0	0	0	0
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>319,861</u></b>	<b><u>294,506</u></b>	<b><u>334,000</u></b>	<b><u>305,338</u></b>
<b>Plus:</b>				
Increase in Amortization of Fixed Income Securities	0	0	0	0
Realized Gains	300,034	30,291	174,640	685,834
Unrealized Gains	2,490,032	1,458,540	1,764,601	633,868
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,432</u>
<b>Sub Total</b>	<b><u>2,790,066</u></b>	<b><u>1,488,831</u></b>	<b><u>1,939,241</u></b>	<b><u>1,339,134</u></b>
<b>Less:</b>				
Decrease in Amortization of Fixed Income Securities	0	0	0	0
Paid Accrued Interest on Fixed Income Securities	0	0	(3,408)	(23,342)
Realized Loss	(90,363)	(570,736)	(206,857)	(1,253,902)
Unrealized Loss	(497,313)	(2,493,333)	(2,447,676)	(344,968)
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>(19,432)</u>	<u>(27,160)</u>
<b>Sub Total</b>	<b><u>(587,677)</u></b>	<b><u>(3,064,069)</u></b>	<b><u>(2,677,373)</u></b>	<b><u>(1,649,371)</u></b>
<b>NET INVESTMENT INCOME</b>	<b><u>2,522,250</u></b>	<b><u>(1,280,733)</u></b>	<b><u>(404,133)</u></b>	<b><u>(4,899)</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	48,619	64,595	86,691	91,941
Annuity Reserve Fund	63,707	62,165	52,342	49,786
Military Service Fund	0	0	0	0
Expense Fund	<u>137,251</u>	<u>172,742</u>	<u>172,050</u>	<u>202,574</u>
<b>TOTAL INCOME REQUIRED</b>	<b><u>249,577</u></b>	<b><u>299,501</u></b>	<b><u>311,082</u></b>	<b><u>344,300</u></b>
Net Investment Income	<u>2,522,250</u>	<u>(1,280,733)</u>	<u>(404,133)</u>	<u>(4,899)</u>
Less: Total Income Required	<u>249,577</u>	<u>299,501</u>	<u>311,082</u>	<u>344,300</u>
<b>EXCESS INCOME TO THE PENSION RESERVE FUND</b>	<b><u>\$2,272,673</u></b>	<b><u>(\$1,580,234)</u></b>	<b><u>(\$715,215)</u></b>	<b><u>(\$349,199)</u></b>

## Hull Retirement System

### STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

**FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$128,340	0.90%	100
Short Term		\$0	0.00%	100
Fixed Income		\$0	0.00%	40 - 80
Equities		\$0	0.00%	40 **
Pooled Short Term Funds		\$0	0.00%	
Pooled Domestic Equity Funds		\$3,384,586	23.74%	40 **
Pooled International Equity Funds		\$312,013	2.19%	10
Pooled Global Equity Funds		\$0	0.00%	
Pooled Domestic Fixed Income Funds		\$2,943,494	20.64%	40 - 80
Pooled International Fixed Income Funds		\$0	0.00%	
Pooled Global Fixed Income Funds		\$0	0.00%	
Pooled Alternative Investment Funds		\$0	0.00%	
Pooled Real Estate Funds		\$0	0.00%	
Pooled Domestic Balanced Funds		\$0	0.00%	
Pooled International Balanced Funds		\$0	0.00%	
PRIT Cash Fund		\$0	0.00%	
PRIT Core Fund		\$7,491,171	52.53%	100
<b>GRAND TOTALS</b>	<b>\$0</b>	<b>\$14,259,605</b>	<b>100.00%</b>	

\*\* Total Equities not to exceed 40% including International Equities

\* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2003**, the rate of return for the investments of the **Hull** Retirement System was 23.19%. For the five-year period ending December 31, **2003**, the rate of return for the investments of the **Hull** Retirement System averaged 3.12%. For the nineteen-year period ending December 31, **2003**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Hull** Retirement System was 8.82%.

## **Hull Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

The **Hull** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

June 15, 1989

20.04 (6) American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments not exceed 5% of the total book value of equity investments.

20.07 (6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

October 16, 1990

20.04 (6) American Depositary Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that all such investments not exceed 5% of the market value of the total portfolio and 15% of the market value of the equity portfolio.

July 25, 1996

20.03 (2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 5% of the total fixed income portfolio valued at market.

April 30, 1997

20.03(1) Equity investments shall not exceed 40% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

18.02(4) Rate of Return

State Street Global Advisors. The return objective is to exceed a composite benchmark of the Russell 3000 Index (50%), the MSCI EAFE Index (10%), and the Lehman Brothers Aggregate Index (40%).

Freedom Capital Management Corporation. The return objective is to exceed a composite benchmark of (50%) of the Standards & Poor's Index and (50%) of the Shearson Lehman Government Corporate Index.

## **Hull Retirement System**

### **SUPPLEMENTARY INVESTMENT REGULATIONS**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)**

May 14, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Hull Retirement Board may make some modest modifications to its investment agreements with State Street Global Advisors. Without changing either the overall asset allocation or the benchmark for each mandate, the Board is switching from SSGA funds that are quantitatively focused to funds that are more traditionally managed. In its US large cap stock mandate, it is transferring from the Large Cap Core Matrix strategy to the US Core Opportunities Strategy. In its US small cap mandate, it is switching from the Small Cap Strategy Fund to the Small Cap Growth Opportunities Strategy. In its international equity strategy, it is switching from the Daily Active Developed Markets Fund to the International Growth Opportunities Strategy.

June 28, 2001

16.08

In accordance with Investment Guideline 99-2, the Hull Retirement Board is making two modest modifications to its existing investment mandate with Freedom Capital Management Company.

The large cap value mandate is being transferred from a separate account to a commingled fund, the Freedom Capital Large Cap Value Fund, for the purpose of achieving greater operational efficiency and investment opportunity.

The fixed income mandate is being similarly moved to a commingled fund and is also being changed from a “core” to a “core plus” mandate. The new fund is the Freedom Capital Core Plus Fixed Income Fund.

## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS**

**FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

#### **NOTE 1 - THE SYSTEM**

The plan is a contributory defined benefit plan covering all **Hull** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1939, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

#### **NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS**

The **Hull** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

November 5, 1996:

1. Effective November 5, 1996, the following rules and regulations of the Hull Contributory Retirement system relative to membership in said system shall be in effect. These regulations shall supersede any previous regulations.



## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS - (Cont'd.)**

2. For the purpose of these regulations full time employment shall be defined as 35 hours per week (or 1820 hours yearly) for administrative, clerical employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed members of the fire department and four consecutive eight hour days on duty followed by two consecutive days off duty for uniformed employees of the police department.

3. If a full time employee who is a member in service of the Hull Contributory Retirement System on November 5, 1996 and becomes a part time employee at any time after November 5, 1996 said employee shall remain an active member of the system.

4. General provisions governing creditable service for any period or part time, provisional, temporary, temporary provisional, seasonal or intermittent employment or service prior to any individual's eligibility for membership in the Hull Contributory Retirement System (the System). Except as expressly provided by these regulations, no individual in the employment or service of the Town of Hull (the Town) shall be eligible to be credited with creditable service for any period of part time, provisional, temporary, temporary provisional, seasonal or intermittent (hereinafter, collectively, part time) employment or service prior to any individual's eligibility to become a member of the System (or the reinstatement of such eligibility).

5. Eligibility. Except pursuant to these regulations promulgated by the Hull Contributory Retirement Board (the Board) under G.L. c. 32, § 4(2)(c), no member of the System shall be eligible to be credited with creditable service for any period of part time employment or service in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility).

For the purpose of these regulations a part time employee of the Town who is eligible for creditable service for any period of part time employment or service in the System prior to said employee's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be deemed an eligible part time employee pursuant to this section 5.

6. Permanent part time employees employed as of November 5, 1996 but hired prior to November 5, 1996 and currently working 20 hours or more per week must elect to join the System upon completion of any probationary period as of November 5, 1996.

7. Relationship to Massachusetts General Laws Chapter 32. An eligible part time employee who, in accordance with these regulations, receives credit for creditable service for employment or service rendered prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be subject to any and all provisions of G.L. c. 32.

## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS - (Cont'd.)**

8. Administration. The credit for creditable service for employment or service for any period of part time employment or service in the System by an eligible employee who in accordance with these regulations, receives credit for creditable service for employment or service for any period of part time service or employment in the System prior to said member's eligibility to become a member of the System (or the reinstatement of such eligibility) shall be administered by the Board, which Board shall also have the authority to promulgate further regulations to implement the provisions of these regulations.

9. Interpretation. For the purposes of these regulations, words shall have the same meanings as defined in G.L. c. 32, unless otherwise expressly provided herein or unless the context clearly requires otherwise.

10. Effective date. These regulations shall become effective upon the approval of these regulations by the Public Employee Retirement Administration Commission pursuant to G.L. c. 7, § 50.

January 16, 2003

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

## **Hull Retirement System**

### **NOTES TO FINANCIAL STATEMENTS (Continued)**

#### **FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

##### **NOTE 4 - ADMINISTRATION OF THE SYSTEM**

The System is administered by a five person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Ann R. MacNaughton

Appointed Member: Christopher J. McCabe                      Term Expires: 12/07/2005

Elected Member: Maurice E. Murphy                      Term Expires: 02/25/2004

Elected Member: Leonard Colton                      Term Expires: 12/30/2005

Appointed Member: James A. Yacobucci                      Term Expires: 12/30/2005

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	
Ex officio Member:	)	\$1,000,000
Elected Member:	)	Fidelity Bond (Travelers)
Appointed Member:	)	
Staff Employee:	)	

# Hull Retirement System

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003

#### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Stone Consulting, Inc.** as of **January 1, 2003**.

The actuarial liability for active and inactive members was	\$17,359,706
The actuarial liability for retired members was	<u>19,893,990</u>
The total actuarial liability was	<b>37,253,696</b>
System assets as of that date were	<u>11,486,319</u>
The unfunded actuarial liability was	<b><u>\$25,767,377</u></b>
The ratio of system's assets to total actuarial liability was	30.8%
As of that date the total covered employee payroll was	\$7,077,149

The normal cost for employees on that date was 8.38% of payroll

The normal cost for the employer was 6.45% of payroll

The principal actuarial assumptions used in the valuation are as follows:

**Investment Return:** 8.00% per annum

**Rate of Salary Increase:** 5.00% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets ( a )	Actuarial Accrued Liability ( b )	Unfunded AAL (UAAL) ( b-a )	Funded Ratio ( a/b )	Covered Payroll ( c )	UAAL as a % of Cov. Payroll ( (b-a)/c )
1/1/2003	\$ 11,486,319	\$ 37,253,696	\$ 25,767,377	30.8%	\$7,077,149	364.09%
1/1/2002	\$ 12,729,389	\$ 34,486,289	\$ 21,756,900	36.9%	\$6,562,000	331.56%
1/1/2000	\$ 13,245,563	\$ 30,031,489	\$ 16,785,926	44.1%	\$5,662,000	296.47%
1/1/1998	\$ 10,940,000	\$ 25,396,000	\$ 14,456,000	43.1%	\$4,818,000	300.04%
1/1/1996	\$ 8,400,000	\$ 21,262,000	\$ 12,862,000	39.5%	\$4,530,000	283.93%

## Hull Retirement System

### NOTES TO FINANCIAL STATEMENTS (Continued)

**FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2003**

#### NOTE 6 - MEMBERSHIP EXHIBIT

<b>Retirement in Past Years</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Superannuation	5	12	11	6	1	4	2	7	5	5
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	1	0	2	0	1	2	0
Total Retirements	<b>5</b>	<b>12</b>	<b>11</b>	<b>7</b>	<b>1</b>	<b>6</b>	<b>2</b>	<b>8</b>	<b>7</b>	<b>5</b>
 Total Retirees, Beneficiaries and Survivors	 121	 122	 125	 131	 134	 137	 135	 136	 131	 132
 Total Active Members	 148	 148	 146	 156	 159	 167	 160	 170	 166	 169
 <b>Pension Payments</b>										
Superannuation	\$644,044	\$716,585	\$745,961	\$787,882	\$841,743	\$901,227	\$828,543	\$897,857	\$1,057,531	\$1,124,887
Survivor/Beneficiary Payments	22,417	22,772	16,955	24,370	27,986	30,784	51,814	46,487	43,067	42,806
Ordinary Disability	46,004	41,191	41,371	38,366	30,557	31,778	24,301	25,045	28,134	18,262
Accidental Disability	367,869	427,934	439,736	507,229	468,400	489,974	477,382	540,369	596,096	624,407
Other	157,450	160,643	205,502	129,419	114,688	108,964	176,802	160,313	163,215	162,380
Total Payments for Year	<u><b>\$1,237,784</b></u>	<u><b>\$1,369,125</b></u>	<u><b>\$1,449,525</b></u>	<u><b>\$1,487,266</b></u>	<u><b>\$1,483,374</b></u>	<u><b>\$1,562,727</b></u>	<u><b>\$1,558,843</b></u>	<u><b>\$1,670,072</b></u>	<u><b>\$1,888,042</b></u>	<u><b>\$1,972,742</b></u>

PERAC

Five Middlesex Avenue | Third Floor  
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: [www.mass.gov/perac](http://www.mass.gov/perac)